
Minutes

Board of Natural Resources Meeting

November 1, 2005
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

Ted Anderson, Commissioner, Skagit County

Doug Sutherland, Commissioner of Public Lands

Bruce Bare, Dean, University of Washington, College of Forest Resources

BOARD MEMBERS PRESENT BY PHONE

Daniel J. Bernardo (by telephone), Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

BOARD MEMBERS ABSENT

Terry Bergeson, Superintendent of Public Instruction

Bob Nichols, for Governor Christine Gregoire

CALL TO ORDER

Chair Sutherland called the meeting to order at 9:05 a.m. on, November 1, 2005, in Room 172 of the Natural Resources Building.

APPROVAL OF MINUTES

MOTION: Mr. Anderson moved to approve the October 4, 2005, Board of Natural Resources Meeting Minutes.

SECOND: Dr. Bare seconded.

ACTION: Motion passed unanimously.

PUBLIC COMMENTS FOR AGENDA ACTION ITEMS

No public comments for agenda action items.

LAND TRANSACTIONS (ACTION ITEM)

Benton City Direct Transfer ~ 02-074898 (Handout1)

Ms. VanBuren presented the Benton City Direct Transfer. She stated that the parcel is located in Benton County, 10 miles west of Tri-Cities, south of I-82. The property is comprised of 9.9 total acres, with 5.5 acres unencumbered, and 4.4 acres claimed by railroad through the Congressional Act of 1862. She said there is public access, electricity, no water/sewer, and it is zoned commercial. The property was appraised at \$41,000.

Mr. Anderson asked if this would become a City Port District.

Ms. VanBuren said her understanding of this particular parcel is that the City, at this time, plans to develop and keep it in ownership.

Chair Sutherland added that Benton City has been interested in expanding their economic development capabilities to the other side of freeway 82. He said that the City believes they have the ability to provide water and sewer services to this property.

MOTION: Mr. Anderson moved to approve Resolution #1180.

SECOND: Mr. Bare seconded.

ACTION: Motion passed unanimously.

Hatton Water Certificate ~ 02-077905 (Handout2)

Ms. Armbruster presented the Hatton Water Certificate, which is located in Adams County. She gave a brief background on the parcel saying that the certificate was acquired by the state in 1974 and it irrigates 548 acres at 1370 acre-feet per year. It is used by lessees to irrigate a section of common school property and is located in the Odessa Ground Water Sub-Area, an area with a rapidly declining aquifer. The water level has declined below the level of the current well. She explained that the current lessee has converted to dryland farming and the water right was not used this past crop year. If the water right is not used for five years it is subject to relinquishment. She detailed the options that were considered:

- Drill a new well:
 - o Very costly option, especially when the water level is continuing to drop.
- Transfer water right to another property:
 - o Not feasible due to Ecology transfer rules in this area.
- Sell the property:
 - o Would have to be sold through the land bank, which has a property size limit of 160 acres. The subject property is 640 acres.
- Lease the water right:
 - o If possible to lease, estimated income would be around \$20,000 per year until aquifer declines too far.
- Sell the water right:
 - o If suitable buyer can be found, allows trust to capture full remaining value of water right and reinvest the proceeds.

Ms. Armbruster went on to talk about the valuation process saying that valuing water rights is a new area and uncommon for appraisers to deal strictly with water rights. Through research and knowledge of local markets, Department staff has discovered sales in which water rights have sold for \$200 to \$450 an acre-foot. The Department recently purchased a water right for \$280 an acre-foot. The Department proposes setting the value for this water right at \$250 an acre-foot for the 1370 acre-feet allowed under this certificate, for a total value of \$342,500.

Ms. Armbruster talked about the proposed sale:

- The water right would be sold at public auction through the land bank.

- The resolution proposes that the asset be designated land bank property and that the minimum bid be set at \$342,500.
- Sale of the water right would be contingent upon the Department of Ecology approving the transfer to the successful bidder.
- Proceeds would be deposited in the land bank and held to purchase suitable replacement property.

Tom Buchholtz came forward to explain some details about water certificate sales. He introduced himself as an agricultural engineer for the Department. He explained that in the Odessa Sub-Area there are numerous factors involved with determining value, including location of the permit, where permits can be transferred to, and whether or not there's water available in the wells in a specific area. He said the numbers he used for the valuation on Hatton were anecdotal from different parts of the Odessa Sub-Area.

MOTION: Mr. Anderson moved to approve Resolution #1181.

SECOND: Mr. Bare seconded.

DISCUSSION: Mr. Buchholtz described the Odessa Sub-Area stating that it was designated in the late 1970's. It was designated for purposes of managing the groundwater within that area under specific regulations enforced by the Department of Ecology. He said it was set up at a time when the second half of the Columbia River Basin irrigation project was still being proposed for development. The second half of the Columbia Basin project has not been developed to date. He said that declines in the groundwater levels of 10 feet a year are quite common. Many of the wells in the Odessa Sub-Area that were pumping from four to five hundred feet are now at seven to nine hundred foot pumping levels. He said at this point it's more economical for DNR to revert back to dryland wheat on this property.

ACTION: Motion passed unanimously.

TIMBER SALES (Action Item)

Proposed Timber Sales for December 2005 (Handout 3)

Mr. Tweedale briefed the Board on the market saying that the log markets are stable but there are indications of possible weakening of log prices in the 1st quarter.

October 2005 Sales Results:

Six sales offered & six sold; 18.2 mmbf offered & 18.2 mmbf sold; \$4.7 million minimum bid offered & \$6.0 million sold; \$258/mbf offered & \$332/mbf sold; 28% above minimum bid; average number of bidders =4.0.

Mr. Anderson mentioned Sierra Pacific's opening of a mill in Skagit County, which the County is happy about.

Mr. Tweedale responded that the mill would add an element of competition.

Chair Sutherland asked Mr. Tweedale what he thought about the Weyerhaeuser closure in Cosmopolis and Hoquiam.

Mr. Tweedale said he didn't think it would impact DNR's business. However, the loss of the pulp mill could have significant impact on stumpage prices if one isn't opened in the area. The opportunities for new technology could fill that gap.

Proposed December 2005 Board Sales:

Nine sales at 34.8 mmbf; \$12.5 million minimum bid; average \$359/mbf. Mr. Tweedale recommended all nine sales at 34,812 mbf with a minimum bid of \$12,503,000 be approved for auction for the month of December 2005.

Mr. Anderson suggested that if there was salvage cedar leftover after sales it should be sent to the small mills to be manufactured into different wood products. He indicated that he was aware of a study by the U.S. Forest Service regarding cedar salvage utilization and retention of habitat.

Mr. Tweedale said he'd be interested in seeing that science and research and how it could be applied to DNR.

MOTION: Mr. Bare moved to approve the December 2005 timber sales.

SECOND: Mr. Anderson seconded.

ACTION: Motion passed unanimously.

CHAIR REPORTS (Action Item)

Proposed Change for Selecting an Upland Parcel for Water Dependent Rents (Action Item) (Handout4)

Fran McNair, Aquatic Land Steward, presented. She said her purpose for today's meeting would be to ask the Board for final approval to the proposed changes to WAC 332-30-123. She reminded them that at last month's meeting she had outlined the proposed changes and reasoning behind them. She explained that the current rule is about selecting an upland parcel to use to calculate rents for water-dependent uses such as marinas and piers. State law specifies that water-dependent rents shall be calculated using a specific formula, which is outlined in statute. This formula is based on the assessed value of the upland parcel that is used in conjunction with the leased aquatic lands. The law also says that when the assessed value of the upland parcel is, "not assessed or has an assessed value inconsistent with the purposes of the lease", then DNR selects an alternate upland parcel to calculate the rent.

Ms. McNair stated that the current rule explains what inconsistent means, when to select an alternate upland parcel, and how to select that parcel. However, there have been issues that were not anticipated when the rule was written in 1984. She said the purpose of the proposed changes is to clarify the whole process, make the rule easier to understand and apply, and address some situations not specifically discussed in the rule.

Ms. McNair referred to a diagram showing examples of upland parcel selection. She gave an example of the problems that DNR runs into under the current rule: a marina on leased state-owned aquatic lands, with a marina office on the upland. In this situation, DNR starts with the assessed value of the upland parcel to calculate the rent for the leased aquatic land. She said that sometimes this doesn't always work. The county assessment may not reflect fair market value or the upland is contaminated with hazardous materials, the marina may not have an office but instead has apartments or something else not used with the marina. She stated that in all these cases, DNR must select an alternate parcel. She said all these issues have been clarified in the updated rule.

Ms. McNair moved on to discuss public comments stating that the Department heard support and opposition to the proposed rule changes. A total of 29 people commented at the public hearings or through written comments. She indicated that the rule was amended in two places in response to the

public comments. She talked about the opposition to the rule changes saying that most of them either disagreed with considering the list of inconsistent situations in the rule to list of examples, not an exclusive list, or with considering contamination of the upland parcel to be a reason to select an alternate upland parcel. She said these comments were reviewed again but DNR staff believes that both are proper and important applications of the intent of the state law.

Ms. McNair asked for approval on resolution #1182.

MOTION: Mr. Bare moved to approve resolution #1182.

SECOND: Mr. Anderson seconded.

ACTION: Motion passed unanimously.

Chair Sutherland informed the Board that Judge Armstrong released a 23-page decision regarding the Sustainable Harvest Calculation lawsuit. He said that it gave some indication and reasoning behind the ruling that Judge Armstrong came out with a month ago. He added that the Judge requested that the Attorney's for both parties present information on the final order on November 18th. He said the Board would have an executive session in December to discuss next steps.

Meeting adjourned at 10:00 a.m.

Approved this ____ day of _____, 2005

Doug Sutherland, Commissioner of Public Lands

Bob Nichols for Governor Christine Gregoire

Bruce Bare, Dean, University of Washington

Daniel J. Bernardo, Dean, Washington State University

Terry Bergeson, Superintendent of Public Instruction

Ted Anderson, Commissioner, Skagit County

Attest:

Sasha Lange, Board Coordinator